

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

| | | |
|-------------------------------------|---|----------------|
| INDECK KEYSTONE ENERGY, LLC, a |) | |
| Delaware limited liability company, |) | |
| |) | |
| PLAINTIFF |) | |
| |) | |
| v. |) | CIVIL ACTION |
| |) | No. 04-CV-325E |
| VICTORY ENERGY OPERATIONS, LLC, a |) | |
| Delaware limited liability company |) | |
| |) | |
| DEFENDANT |) | |

EXPERT REPORT OF SCOTT A. STRINGER

March 26, 2007

I have been retained by Mr. Christopher T. Sheean attorney for Defendant Victory Energy Operations, LLC (VEO) to determine the gross profit earned by VEO on certain boilers identified in the above-styled litigation and to review and critique the report of plaintiff's expert Mr. William F. Liebel.

This report summarizes my opinions and conclusions to date. It is my understanding that discovery and depositions are still ongoing in this matter. Therefore, I reserve the right to supplement this report and update my opinions should additional information become available.

Exhibit I lists my Curriculum Vitae which indicates my experience and qualifications, as well as a list of all publications written in the last ten years and deposition and trial testimony during the last four years. UHY is being compensated at an hourly rate of \$340 for time I spend in connection with this matter and rates ranging from \$60-\$210 per hour for others who have assisted me. Our fees are not contingent upon either the outcome of the litigation or the conclusions expressed herein.

In developing my opinions in this case, I have reviewed certain documents, data, information, and testimony. The data, documents, and information I have reviewed and primarily relied upon is contained in **Exhibit II** of this report.

SUMMARY OF OPINIONS

The gross profit realized by VEO on eleven Keystone boilers and seven Voyager boilers was \$484,002 and \$1,341,540 respectively.

CASE BACKGROUND

In January of 2003, VEO and Erie Power Technologies, Inc. (EPTI) entered into an agreement whereby VEO obtained an exclusive license to manufacture and sell boilers in North America as well as to use various trademarks associated with the technology.

In September of 2004, Indeck Keystone Energy LLC (IKE) acquired all of the intellectual property of EPTI that is at issue in this litigation. IKE alleges that VEO incorporated the Keystone trademark, trade secrets, and other intellectual property in the production and sale of boilers that fell outside of the scope of the original license agreement with EPTI. Count VI of the Complaint requests an order for the accounting of all VEO sales and profits on these boilers.¹ IKE further alleges that VEO utilized the Keystone trade secrets in the manufacturing and sale of its new line of boilers, the Voyager. IKE seeks to recover the profits VEO has earned on the sale of its Voyager line of boilers.

ASSIGNMENT

My first assignment in this case was to compute the sales and resulting profits on the Keystone boilers as well as the Voyager boilers completed and shipped as of February 17, 2007. My computations were made based upon generally accepted accounting principles known as GAAP. Because this litigation is specific to certain boilers and not the entire company operations, I deemed the term "profits" to mean "gross profit" as defined in GAAP. In addition, I was asked to review and provide a critique of the report of plaintiff's expert Mr. William Liebel.

Calculation of Gross Profit

As shown on **Exhibits III and VII**, I calculated the gross profit for the Keystone and Voyager boilers. Gross profit is defined under GAAP as net sales minus cost of goods sold. Cost of goods sold for a manufacturing company is defined as all costs to prepare a product for sale including raw material, direct labor, and overhead associated with the manufacturing process.²

Because of the unique nature and high dollar amount of the products manufactured by VEO, the accounting practice that is used is called job costing. Job costing is a recognized accounting methodology that treats each product as a separate reporting unit called a "job." These jobs can then be analyzed individually to determine the extent of costs and resulting gross profit earned by each job.

The first step in calculating gross profit on the selected jobs was to determine the amount charged by VEO to its customers. I obtained a listing of the detailed billings by job.³

¹ Complaint dated November 8, 2004

² *Intermediate Accounting*, Twelfth Edition, Jay M. Smith, Southwestern Publishing Co., 1995

³ *Job Billing History Report*

Once I determined the revenues for each job, the next step was to determine the cost of goods sold. The components of costs of goods sold fall into four categories: raw materials, direct labor, other costs, and manufacturing overhead.

Raw materials are those tangible products purchased by VEO that will go into building the boilers. From the detailed listing by job and by internal expense account prepared by VEO, I reviewed and recalculated the raw material costs.⁴ In order to determine the validity of the listing, I selected one job and traced the charges for raw materials directly to the purchase order noting no material discrepancy.

Direct labor costs are the wages paid for employees and outside contractors who work in the manufacturing process. These costs were accounted for by job and listed in the various reports noted as Cost Code Summary Report and Cost Code Summary Report by Individual. Temporary personnel costs by job were accumulated separately and summarized on an Excel spreadsheet prepared by VEO.⁵

Other allocated costs consist primarily of miscellaneous employee expenses, freight, commissions/royalty payments, and engineering charges which can be specifically associated with a job. These costs are identified by VEO in the Job Transaction Detail Report.

Manufacturing overhead represents manufacturing costs that cannot be directly associated with a job. Under GAAP, manufacturing costs are allocated to jobs using a reasonable and rational allocation method. The most common method for allocating overhead is by labor hours. Thus, the method I used allocates overhead based upon the ratio of direct labor hours used by job to the total direct labor hours incurred for the period.

I analyzed the manufacturing costs incurred by VEO by reviewing the income statements with account detail for 2005 and the first six months of 2006.⁶ I did not analyze 2004 costs because only one boiler was in production during this period.

I then discussed each of these costs with VEO controller Matt Robinson to determine if these costs benefited manufacturing, and if so, to what degree. Based upon my discussions and as shown on **Exhibit VI**, I determined that the total manufacturing overhead costs to be applied for 2005 and the first six months of 2006 were \$4,395,608 and \$3,774,026, respectively.

As illustrated on **Exhibit V**, the total manufacturing labor hours in 2005 and for the first six months of 2006 were 115,739 and 94,708, respectively. Dividing the manufacturing overhead cost by the total manufacturing labor hours resulted in an overhead allocation rate of \$37.98 per hour for 2005 and \$39.85 for 2006. These rates were then multiplied

⁴ *Job Transaction Detail Reports*

⁵ *Cost of Goods Sold Manufactured for Selected Jobs* VEO15233 to 15235

⁶ VEO 15211 - 15213, 15201 - 15203, 15206 - 15208

by the actual hours incurred during the manufacturing process for each job for the appropriate period.

Considering raw materials, direct labor, other costs, and manufacturing overhead, the total cost of goods sold for Keystone and Voyager boilers was \$7,802,226 and \$6,127,033, respectively. As well, there were additional charges on two Voyager jobs that had not been classified in cost of goods sold. Those charges are shown as a separate line item titled "Back Charges."

When these costs are deducted from Revenue, this results in Gross Profit for the Keystone and Voyager boilers of **\$484,002** and **\$1,341,540**, respectively.

Critique of Report of William Liebel

I was also asked to review the report of plaintiff's expert Mr. William Liebel. Based upon my review, I believe that there are significant errors in both methodologies and conclusions. The following summarizes my opinions regarding Mr. Liebel's report:

- Based on his curriculum vitae, Mr. Liebel is not a certified public accountant and has no background in performing a detailed job cost accounting analysis.
- There is no indication in the report that Mr. Liebel has attempted to utilize GAAP.
- Mr. Liebel makes several complaints about inadequate documentation from VEO, but never articulates the information he needs, or its impact on his conclusions.
- Mr. Liebel claims that a budget estimate for each of the Keystone projects is needed to calculate profit or loss.
- Although he claims to have inadequate documentation, Mr. Liebel renders calculations on VEOs profits for both the Keystone and Voyager boilers.
- Mr. Liebel relies upon the "Boiler Price per Royalty" for the amount VEO received on the Keystone boilers rather than the actual billings.
- Mr. Liebel's numbers for material cost are grossly understated for every Keystone project.
- On his "Summary of Profit/Loss of Contracts Reviewed", Mr. Liebel makes three math errors that result in his calculation of profits being overstated by \$175,000 to \$200,000.
- Mr. Liebel uses different methodologies to compute profits for Keystone and Voyager.

- Mr. Liebel tries to calculate the profit on the five Voyager jobs by using unsupported profit margins.

Based upon my analysis and findings as previously described, I believe that Mr. Liebel's report cannot be relied upon to calculate gross profit to any reasonable degree of certainty.

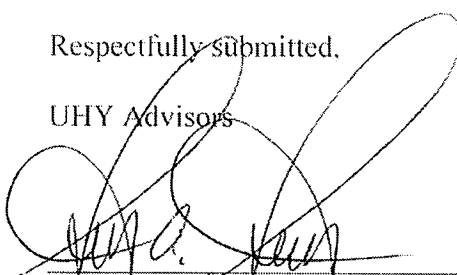
CONCLUSION

Based upon my analysis of the evidence and the application of generally accepted accounting principles, the gross profit earned by VEO on the Keystone and Voyager boilers was \$484,002 and \$1,341,540, respectively.

* * * * *

Respectfully submitted,

UHY Advisors



Scott A. Stringer
Managing Director

EXHIBIT I

**CURRICULUM VITAE
SCOTT A. STRINGER
03/26/2007**

EMPLOYMENT

Current: (2001 – Present)
UHY Advisors
15 Sunnen Drive, Suite 100
St. Louis, Missouri 63143
Managing Director
Business Consulting Department Head

History: (1997 – 2001)
Sabino Stringer & Associates LLC
St. Louis, Missouri
Member

(1991 – 1997)
Pritchard, Osborne, LLC
Clayton, Missouri
Member

(1992 - 1993)
(2006 – present)
Maryville University
Chesterfield, Missouri
Instructor of Accounting
(Concurrent with Pritchard Osborne and UHY)

(1988 - 1991)
Grant Thornton
St. Louis, Missouri
Senior Consultant

(1988 – 1989)
Southern Illinois University
Edwardsville, Illinois
Adjunct Instructor of Accounting
(Concurrent with Grant Thornton)

(1987 - 1988)
Coin Acceptors, Inc.
Clayton, Missouri
Manager of Financial Reporting

(1984 - 1987)
KPMG Peat Marwick LLP
St. Louis, Missouri
Senior Accountant

(1982 - 1984)
Pet, Incorporated
St. Louis, Missouri
Cost Accountant

CERTIFICATIONS

Certified Public Accountant
Certified Valuation Analyst

EDUCATION

Graduate: St. Louis University, St. Louis, Missouri
Master in Business Administration -
Finance

Undergraduate: Southern Illinois University,
Edwardsville, Illinois
Bachelor of Science in Accountancy

Other: Specialized Training in:

Business Valuation
Litigation Support
Fraud and Forensic Examinations

TESTIMONY OVER LAST FOUR YEARS

2007 – *Anne Wheatley v Moe's
Southwest Grill, LLC, et al.*, Business
valuation in shareholder dispute, US
District Court, Northern District of
Georgia, Atlanta Division (deposition)

2007 – *Bridget Schroepfer, et al., v State Industries, Inc., et al.*, Rebuttal of damages, US District Court, Eastern District of Missouri, Eastern Division (deposition)

2006 – *Rhett Rance and Alice Vila Smith et al., v Commissioner of Internal Revenue*, Business Valuation, US Tax Court, Phoenix Arizona (trial)

2006 – *United States v Scott F. Creasia*, Propriety of business structure, US District Court, Tucson Arizona (trial)

2006 – *Jeanne Pribyl et. al., v Mark J. Degel et al.*, adherence to accounting requirements by trustee, St. Louis County, Missouri (deposition)

2006 – *Richard Brock, et al., v Myron W. Haith, et al.*, Rebuttal of damages, St. Louis County, Missouri (deposition)

2005 – *Cosman v Cosman*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition)

2005 – *Hewlett Packard Development Company, L.P. et al v Midwest Information Technology Group, Inc. et al.*, Economic damages, US District Court, Central District of Illinois, Springfield Division (deposition)

2005 – *Computers Plus Inc. v Evers & Company*, Accounting standards required for a certified audit, Cole County, Missouri (deposition)

2005 – *Solavie v TricorBraun*, Lost Profits rebuttal, St. Louis Missouri (AAA arbitration)

2005 – *Jeffrey M. Lowe v. American Standard Inc.* Economic damages, US District Court, Eastern District of Missouri, Eastern Division (trial)

2004 – *DeVecchio v DeVecchio* – Projection of net income, St. Louis County, Missouri (trial)

2004 – *United States v Keith E. Anderson et al*, Propriety of business structure, US District Court, Western District of Washington at Seattle (trial)

2004 – *Cosman v Cosman*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition)

2004 – *Game Face Sports International inc., v Reuben O. Charles et al.*, Rebuttal of Damages, City of St. Louis, State of Missouri (deposition)

2004 – *Traffic Control v Able Industries*, Calculation of amounts owed under purchase agreement, rebuttal of damage calculation, St. Louis Missouri (AAA deposition)

2004 – *Mehard v. Mehard*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition and trial)

2004 – *Chipongian v. Edward Jones* Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2004 – *Jeffrey M. Lowe v. American Standard Inc.* Economic damages, US District Court, Eastern District of Missouri, Eastern Division (deposition)

2003 – *Brooks v. Morgan Stanley Dean Witter* Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *Clement v. Burns, Gustus & Co.*, Schedules of Trading Activity, St. Louis County, MO (deposition and trial)

2003 – *Scharff v. A.G. Edwards & Sons, Inc.*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *Moore v. Moore*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (deposition)

2003 – *Bender v. Morgan Stanley Dean Witter Inc.*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *McLaughlin v. A.G. Edwards & Sons, Inc.*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 - *Muenz v. Muenz*, Calculation of expected income on investments, Marital Dissolution, St. Louis County, Missouri (trial)

2003 – *Wash Solutions, Inc et al. v. PDQ Manufacturing, Inc., et al.*, Lost Profits calculation, US District Court, Eastern District of Missouri, Eastern Division (trial)

2003 – *Ehrler v. Morgan Keegan*, Schedules of Trading Activity, St. Louis, MO (NASD arbitration hearing)

2003 – *Millner v. Millner*, Business Valuation, Marital Dissolution, St. Louis County, Missouri (trial)

2003 – *Jody DeBold and Tri-River Trading v. Jersey County Grain et al*,
Compilation of trading activity records,
rebuttal of damage calculation, Circuit
Court for the City of St. Louis, Twenty-
Second Judicial Court, State of Missouri
(deposition)

2003 – *Wang Tong v. First Securities*,
Schedules of Trading Activity, St. Louis,
MO (NASD arbitration hearing)

PUBLICATIONS AND PRESENTATIONS OVER LAST TEN YEARS

"Defending Lost Profits Claims",
presented at the 2007 Illinois Defense
Counsel Spring Seminar, March 9, 2007

"Managing Your Business For Success",
presented at the Paint and Decorating
Retailers Association conference,
Phoenix AZ, March 18, 2005

"Income – What is it and Where is it?"
presented at the Domestic Relations
Seminar 2004, St. Louis County Bar
Association, October 15, 2004

PROFESSIONAL ORGANIZATIONS

American Institute of CPAs, 1987-
Present

Missouri Society of CPAs, 1985 -
Present

National Association of Certified
Valuation Analysts, 1996 – Present

Association of Certified Fraud
Examiners, 2002- Present

SIGNIFICANT CIVIC POSITIONS

National Children's Cancer Society,
Chairman, Vice Chairman, Member of
the Board, Audit Committee Chairman
1993 – present

Southern Illinois University at
Edwardsville, School of Business,
Department of Accounting – Advisory
Board Member
2005 - present

Legal Advocates for Abused Women
Board Member
2006-present

EXHIBIT II

INFORMATION REVIEWED AND RELIED UPON

1. Various Job Reports, Purchase Orders and other schedules for certain Keystone Boilers. Bates stamped as VEO#9890-9930; VEO#10467-13736; VEO#14072-14437; VEO#14650-14816
2. Various Job Reports, Purchase Orders and other schedules for certain Voyager Boilers. Bates stamped as VEO#15996-16691; VEO#16707-17522
3. Cost Code Summary reports, Bates stamped as VEO#14817-14855; VEO#14880-14890
4. Various Victory Energy financial reports and miscellaneous correspondence. Bates stamped as VEO#14856-14879; VEO#14893-14895; VEO#14956-14979; VEO#15201-15252
5. Complaint filed by IKE dated November 8, 2004
6. Defendant/Counter-Plaintiff Second Amended Counterclaim filed November 4, 2005
7. Deposition of Mark White dated February 1, 2006
8. Telephone interviews with Mark White and Matthew Robinson
9. Protective Order dated August 6, 2006
10. Victory Energy financial statements for June 30, 2006, March 31, 2006 and December 31, 2005
11. Cost Code Summary report for Voyager jobs dated March 26, 2007
12. Job Transaction Summary reports for Voyager jobs dated March 23, 2007
13. Back Charge documents on jobs 400 and 410 and received on March 23 and March 26
14. Expert report of Mr. William Liebel
15. *Intermediate Accounting*, Twelfth Edition, Jay M. Smith, Southwestern Publishing Co., 1995

EXHIBIT III

**Keystone Boilers
Schedule of Gross Profit Per Job**

| | 292 | 303 | 344 | 347 | 355 | 356 | 380 | 390 | 400 | 410 | 418 | Totals |
|---|-------------|------------|------------|------------|--------------|--------------|-------------|-------------|------------|--------------|--------------|--------------|
| Total Contract Revenue | \$ 507,799 | \$ 420,440 | \$ 240,565 | \$ 665,911 | \$ 1,594,774 | \$ 280,026 | \$ 485,553 | \$ 544,195 | \$ 587,351 | \$ 1,587,250 | \$ 1,334,000 | \$ 8,335,965 |
| Less Cost of Goods Sold: | | | | | | | | | | | | |
| Raw Materials | 382,743 | 246,519 | 107,152 | 271,995 | 805,349 | 153,893 | 254,555 | 314,361 | 369,321 | 1,064,571 | 733,592 | 4,815,084 |
| Contract Labor (Exhibit IV) | 24,502 | 31,083 | 39,677 | 31,327 | 69,876 | 68,702 | 75,528 | 48,712 | 54,521 | 128,800 | 116,881 | 690,405 |
| Other Costs Directly Allocated to Jobs | 41,639 | 32,378 | 15,956 | 30,460 | 184,781 | 9,961 | 7,696 | 100,947 | 42,741 | 38,908 | 35,821 | 531,298 |
| Manufacturing Overhead Applied (Exhibit VI) | 113,210 | 68,451 | 83,518 | 87,625 | 158,943 | 157,600 | 189,799 | 100,827 | 127,772 | 340,438 | 317,075 | 1,765,458 |
| Total Cost of Goods sold | 572,095 | 398,441 | 246,318 | 421,607 | 1,309,759 | 390,159 | 538,598 | 564,847 | 594,355 | 1,572,717 | 1,193,369 | 7,802,225 |
| Back Charges | | | | | | | | | 1,561 | 51,146 | | 52,707 |
| Gross Profit | \$ (64,296) | \$ 21,999 | \$ (5,652) | \$ 245,304 | \$ 285,015 | \$ (110,133) | \$ (73,005) | \$ (20,652) | \$ 91,405 | \$ (26,613) | \$ 140,831 | \$ 484,003 |

EXHIBIT IV

Keystone Boilers

Schedule of Direct Labor Wages per Job

| | 282 | 303 | 344 | 347 | 355 | 356 | 380 | 390 | 400 | 410 | 418 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| 2004 | | | | | | | | | | | |
| 2005 | \$ 6,119 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Quarter Ended March 31, 2005 | 17,394 | 29,248 | 35,291 | 30,651 | 66,020 | 64,376 | 18,344 | 22,472 | 19,384 | 12,465 | 5,823 |
| Quarter Ended June 30, 2005 | 200 | 93 | 0 | 0 | 0 | 115 | 23,504 | 16,667 | 32,591 | 6,607 | 22,356 |
| July & August, 2005 | 155 | 973 | | | | | 33,053 | 253 | 1,306 | 105,979 | 33,192 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 1,622 | 3,193 | 211 | 3,349 | 54,510 |
| Direct Labor per Cost Code Summary Reports | 23,808 | 30,314 | 35,291 | 30,651 | 66,020 | 64,491 | 76,538 | 42,585 | 53,592 | 128,600 | 116,881 |
| Temporary Service Charges | 895 | 759 | 4,381 | 676 | 3,556 | 4,211 | 0 | 6,127 | 929 | 0 | 0 |
| Total Direct Labor | \$ 24,503 | \$ 31,083 | \$ 39,672 | \$ 31,327 | \$ 69,576 | \$ 68,702 | \$ 76,538 | \$ 48,712 | \$ 54,521 | \$ 128,600 | \$ 116,881 |

EXHIBIT V

Keystone Boilers
Schedule of Manufacturing Overhead Applied per Job

| | 2005 Actual for 2005-2006 | 1st Qtr. 2006 | 2nd Qtr. 2006 | 2006 Avg. Based for 2006 | 355 | 356 | 380 | 390 | 400 | 410 | 418 |
|---|------------------------------|---------------|---------------|-----------------------------|------------|------------|------------|------------|------------|------------|------------|
| Total Overhead to be Applied (from EXHIBIT VI) | \$ 4,305,608 | \$ 1,472,492 | \$ 2,301,534 | \$ 3,774,076 | | | | | | | |
| Total Manufacturing Hours | 115,738.55 | 47,061.33 | 47,846.73 | 94,708.06 | | | | | | | |
| Overhead Rate per Hour | \$ 37.98 | | | \$ 39.86 | | | | | | | |
| 2004 | | | | | | | | | | | |
| Labor Hours | 1,519.78 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Overhead Applied | \$ 57,721 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| 2005 | | | | | | | | | | | |
| Labor Hours | 1,442.26 | 2,276.70 | 2,189.01 | 2,312.40 | 4,184.91 | 4,140.88 | 1,013.00 | 1,480.46 | 1,095.05 | 721.00 | 428.00 |
| Overhead Applied | \$ 54,777 | \$ 86,409 | \$ 83,518 | \$ 87,825 | \$ 168,943 | \$ 137,271 | \$ 38,474 | \$ 55,468 | \$ 41,590 | \$ 27,384 | \$ 16,255 |
| 1st Qtr. 2006 | | | | | | | | | | | |
| Labor Hours | 12.50 | 6.00 | 0.00 | 0.00 | 0.00 | 8.25 | 1,438.90 | 1,030.25 | 2,097.16 | 454.61 | 1,259.30 |
| Overhead Applied | \$ 498 | \$ 229 | \$ 0 | \$ 0 | \$ 0 | \$ 325 | \$ 58,137 | \$ 41,055 | \$ 83,173 | \$ 18,116 | \$ 50,183 |
| 2nd Qtr. 2006 | | | | | | | | | | | |
| Labor Hours | 5.36 | 44.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,236.21 | 70.00 | 57.50 | 7,216.61 | 2,424.23 |
| Overhead Applied | \$ 214 | \$ 1,753 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 99,113 | \$ 797 | \$ 2,090 | \$ 287,582 | \$ 95,606 |
| 3rd Qtr. August, 2006 | | | | | | | | | | | |
| Labor Hours | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 102.00 | 88.00 | 8.00 | 184.58 | 3,855.28 |
| Overhead Applied | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 4,065 | \$ 3,507 | \$ 319 | \$ 7,356 | \$ 154,031 |
| Total Labor Hours | 2,979.89 | 2,326.70 | 2,195.01 | 2,312.40 | 4,184.91 | 4,149.13 | 4,810.11 | 2,598.71 | 3,257.71 | 8,576.80 | 7,976.81 |
| Total Overhead Applied | \$ 113,710 | \$ 88,461 | \$ 83,518 | \$ 87,825 | \$ 168,943 | \$ 157,600 | \$ 169,789 | \$ 100,827 | \$ 127,772 | \$ 340,438 | \$ 317,075 |

EXHIBIT VI

Keystone Boilers
Schedule of Manufacturing Overhead

| Account | Method of Allocation | Allocation Percentage | Account Balances per Trial Balance | | | Amount to be Allocated as Overhead | | |
|---------------------------------|----------------------------|-----------------------|------------------------------------|---------------|---------------|------------------------------------|---------------|---------------|
| | | | 2005 | 1st Qtr. 2006 | 2nd Qtr. 2006 | 2005 | 1st Qtr. 2006 | 2nd Qtr. 2006 |
| | | | A | B | C | | | |
| Advertising | None | | | | | | | |
| Auto Tags | Actual Cost | | \$ | \$ | \$ | \$ | \$ | \$ |
| Bad Debts | None | | | | | | | |
| Bank Service Charges | None | | | | 176 | | | 176 |
| Certifications | Actual Cost | | | | | | | |
| Computer Expense | Facility Percentage | 50% | 330 | 0 | 0 | 343 | 0 | 0 |
| Consumables | Actual Cost | | 9,954 | 2,517 | 0 | 4,763 | 2,014 | 0 |
| Contract Labor | None | | 0 | 148,247 | 60,699 | 0 | 148,247 | 60,699 |
| Dues & Subscriptions | None | | | | | | | |
| Employee Relations | Labor Percentage | 80% | 10,991 | 1,237 | 3,054 | 9,794 | 990 | 2,443 |
| Employee Expense | Labor Percentage | 80% | 0 | 43,476 | 6,618 | 0 | 34,781 | 5,454 |
| Fees | None | | | | | | | |
| Fines & Penalties | Actual Cost | | | | | | | |
| Insurance - Vehicles | Estimate per VEO | 92% | 3,450 | 3,996 | 648 | 3,457 | 3,966 | 648 |
| Insurance - Boats | None | | 128,939 | 3,765 | 44,529 | 105,779 | 7,205 | 16,514 |
| Insurance - Commercial | Facility Percentage | 80% | 29,746 | 15,266 | 72,719 | 23,797 | 12,213 | 53,175 |
| Insurance - Workers' Comp | Labor Percentage | 80% | 44,034 | 49,873 | 55,936 | 35,227 | 32,698 | 44,750 |
| Insurance - Disability | Labor Percentage | 80% | 0 | 0 | 567 | 0 | 0 | 534 |
| Insurance - Health | Labor Percentage | 80% | 156,685 | 28,628 | 16,067 | 133,348 | 22,502 | 12,854 |
| Insurance - Dental | Labor Percentage | 80% | 27,759 | 9,179 | 5,799 | 22,207 | 7,343 | 4,639 |
| Insurance - Life | None | | | | | | | |
| Insurance - Property Building | Facility Percentage | 80% | | | | | | |
| Other Exp. Machine #1201 | Actual Cost | | 5,184 | 0 | 0 | 4,147 | 0 | 0 |
| Lic/Permits/Tags: Machine #1201 | Actual Cost | | 2,933 | 0 | 0 | 2,833 | 0 | 0 |
| R&M: Machine #1201 | Actual Cost | | 4,930 | 0 | 0 | 4,830 | 0 | 0 |
| Fuel & Oil: Machine #1201 | Actual Cost | | 7,074 | 16 | 0 | 7,074 | 16 | 0 |
| Other Exp. Machine #504 | Actual Cost | | 9,516 | 0 | 0 | 6,516 | 0 | 0 |
| Lic/Permits/Tags: Machine #504 | Actual Cost | | 3,844 | 0 | 0 | 3,944 | 0 | 0 |
| Losses | Actual Cost | | 3,030 | 323 | 0 | 3,030 | 323 | 0 |
| R&M: Machine #504 | Actual Cost | | 24,059 | 14,308 | 10,135 | 14,541 | 10,408 | 7,111 |
| Fuel & Oil: Machine #504 | Actual Cost | | 3,154 | 0 | 0 | 3,154 | 0 | 0 |
| Licenses & Permits | Actual Cost | | 8,696 | 0 | 0 | 8,696 | 0 | 0 |
| Meals & Entertainment | Actual Cost | | 11,733 | 1,428 | 11,354 | 11,733 | 1,428 | 11,354 |
| Dental Expense | Actual Cost | | 0 | 398 | 0 | 0 | 398 | 0 |
| Medical Expenses | Actual Cost | | 7,497 | 7,023 | 12,492 | 7,497 | 7,023 | 12,492 |
| Miscellaneous | None | | | | | | | |
| Shop Expenses | Actual Cost | | | | | | | |
| Office Equip./Computers | Percent for Shop Office | 15% | 241,681 | 671 | 2,328 | 241,681 | 671 | 2,328 |
| Office Exp. & Supplies | Percent for Shop Office | 15% | 16,268 | 3,429 | 10,256 | 2,440 | 514 | 1,540 |
| Payroll Service Fees | Labor Percentage | 80% | 73,392 | 24,770 | 20,439 | 11,084 | 3,716 | 3,066 |
| Pension Expense (SEE NOTE A) | Percent Salaries Allocated | | 7,299 | 905 | 0 | 5,839 | 724 | 0 |
| Personnel Services | Labor Percentage | 80% | 183,563 | 55,000 | 55,000 | 157,681 | 48,420 | 48,595 |
| Pest Control | Facility Percentage | 80% | 0 | 27,089 | 82,728 | 0 | 61,671 | 66,182 |
| Postage & Box Rental | None | | 1,375 | 325 | 255 | 1,100 | 260 | 204 |
| Professional Fees - Other | Facility Percentage | 0% | 15,611 | 31,255 | 13,806 | 0 | 0 | 0 |
| Professional Fees - Acct | Facility Percentage | 0% | 56,566 | 1,569 | 10,950 | 0 | 0 | 0 |
| Professional Fees - Legal | Facility Percentage | 0% | 577,414 | 204,040 | 172,135 | 0 | 0 | 0 |
| Professional Fees - Admin | None | | | | | | | |
| R&M - General | Facility Percentage | 80% | 21,177 | 693 | 5,144 | 16,942 | 554 | 4,115 |
| R&M - Shop Equipment | Actual Cost | | 2,337 | 0 | 0 | 2,337 | 0 | 0 |
| R&M - Computer & Equipment | None | | | | | | | |
| R&M - Fleet | Actual Cost | | | | | | | |
| R&M - Grounds & Landscaping | Facility Percentage | 50% | 12,905 | 9,122 | 12,075 | 12,905 | 9,122 | 12,075 |
| R&M - Office | None | | 27,609 | 0 | 3,478 | 22,087 | 0 | 2,792 |
| R&M - Plant | Actual Cost | | | | | | | |
| Security | Facility Percentage | 80% | 9,764 | 150 | 0 | 9,784 | 150 | 0 |
| Shipping & Supplies | None | | 1,718 | 2,119 | 427 | 1,374 | 1,695 | 342 |
| Storage | Actual Cost | | | | | | | |
| Taxes - Payroll | Percent Salaries Allocated | | 9,600 | 2,400 | 2,400 | 9,600 | 0 | 0 |
| Taxes - Real Estate | Facility Percentage | 80% | 169,046 | 145,587 | 162,563 | 169,280 | 123,213 | 143,545 |
| Taxes - State | Facility Percentage | 80% | 20,146 | 0 | 0 | 16,117 | 0 | 0 |
| Taxes - Sales | None | | 46,741 | 3,305 | 476 | 37,393 | 2,644 | 381 |
| Taxes - Other | Actual Cost | | | | | | | |
| Telephone | Estimated Usage | 30% | 1,335 | 0 | 0 | 147 | 0 | 0 |
| T-1 Cable | Estimated Usage | 30% | 20,127 | 6,227 | 10,070 | 6,038 | 1,868 | 3,021 |
| Cell Phones | Estimated Usage | 30% | 17,510 | 2,415 | 0 | 5,255 | 725 | 0 |
| Tradeshows | Estimated Usage | 30% | 21,025 | 9,366 | 3,005 | 8,308 | 2,810 | 902 |
| Employment Costs | None | | | | | | | |
| Uniforms & Laundry | Labor Percentage | 80% | 6,765 | 3,395 | 3,564 | 5,412 | 2,717 | 2,851 |
| Utilities | Actual Cost | | 24,264 | 7,572 | 10,080 | 24,264 | 7,572 | 10,080 |
| Officers' Salaries | Facility Percentage | 80% | 31,470 | 42,131 | 30,213 | 65,176 | 33,705 | 24,170 |
| Staff Salaries | Estimated Time Usage | 25% | 165,937 | 39,231 | 47,940 | 41,747 | 9,608 | 11,955 |
| Travel | Excludes G&A | | 2,950,053 | 562,555 | 1,751,770 | 2,643,371 | 751,765 | 1,595,361 |
| Airfare | None | | | | | | | |
| Auto Rental Parking Taxi Tolls | None | | | | | | | |
| Fuel & Oil | None | | | | | | | |
| Lodging | None | | | | | | | |
| M&E | None | | | | | | | |
| Mileage Reimbursement | None | | | | | | | |
| Other | None | | | | | | | |
| Depreciation | Actual Cost | | | | | | | |

Total to be Allocated

\$ 1,395,608 \$ 1,472,490 \$ 2,001,534

Square Footage Percent (per VEO Controller)

30%

Labor Burden Percent (per VEO Controller)

30%

\$3,774,026

Percent of Salary Allocated

Total Salaries

Amount Allocated

Allocated

2005

1st Qtr. 2006

2nd Qtr. 2006

1,127,050

301,836

1,309,710

2,385,113

781,523

1,603,590

85.7%

84.4%

89.7%

NOTE: Per VEO Controller, annual pension expense for 2005 will approximate \$220,000, versus \$180,563 in 2005.
 The amounts not allocated until after year end. We utilized one-fourth \$55,000 per quarter.

EXHIBIT VII

Voyager Boilers
Schedule of Gross Profit Per Job

| | <u>443</u> | <u>444</u> | <u>445</u> | <u>504</u> | <u>515</u> | <u>Total</u> |
|---|---------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| Total Contract Revenue | \$ 2,103,002 | \$ 642,359 | \$ 642,359 | \$ 1,552,328 | \$ 2,528,525 | \$ 7,468,573 |
| Less Cost of Goods Sold: | | | | | | |
| Raw Materials | 1,353,055 | 360,618 | 333,555 | 671,866 | 1,441,135 | 4,160,229 |
| Direct Labor | 178,860 | 63,681 | 67,823 | 120,307 | 110,699 | 541,370 |
| Other Costs Directly Allocated to Jobs | 135,345 | 25,758 | 22,515 | 25,055 | 73,733 | 282,406 |
| Manufacturing Overhead Applied (Exhibit VIII) | 363,793 | 134,719 | 139,676 | 248,621 | 256,219 | 1,143,028 |
| Total Cost of Goods sold | 2,031,053 | 584,776 | 563,569 | 1,065,849 | 1,881,786 | 6,127,033 |
| Back Charges | | | | | | |
| Gross Profit | \$ 71,949 | \$ 57,583 | \$ 78,790 | \$ 486,479 | \$ 646,739 | \$ 1,341,540 |

EXHIBIT VIII

Voyager Boilers
Schedule of Manufacturing Overhead Applied per Job

| | | | | | | | | | |
|----------------------------------|----|------------|------------|------------|------------|------------|--|--|--|
| 2006 Overhead rate per Exhibit V | \$ | 39.85 | | | | | | | |
| | | <u>443</u> | <u>444</u> | <u>445</u> | <u>504</u> | <u>515</u> | | | |
| <u>2007/2007</u> | | | | | | | | | |
| Labor Hours | | 9,129.05 | 3,380.65 | 3,505.05 | 6,238.92 | 6,429.58 | | | |
| Overhead Applied | \$ | 363,793 | \$ 134,719 | \$ 139,676 | \$ 248,621 | \$ 256,219 | | | |

| Job No | Customer | Proposal Sell Price | P.O. Sell Price | Minimum Profit | Maximum Profit | Equipment |
|--------|----------------------|------------------------|--------------------|-------------------|-------------------|--|
| 443 | Abengoa Bio Energy | \$1,848,284 | \$1,848,284 | \$323,450 | \$508,278 | (2) VS-6-92, 150,000#/hr, 250psig Sat. |
| 444 | Sioux River Ethanol | \$642,359 | \$642,359 | \$112,413 | \$176,649 | (1) VS-4-68 85,000#/hr, 250psig, Sat. |
| 445 | Iowa Erhanol | \$642,359 | \$642,359 | \$112,413 | \$176,649 | (1) VS-4-68 85,000#/hr, 250psig, Sat. |
| 446 | Summit Ethanol | \$1,596,360 | \$1,596,360 | \$279,363 | \$438,999 | (2) VS-5-80 120,000 #/hr 250psig Sat. |
| 490 | Primier Ethanol | \$1,596,360 | \$1,596,360 | \$279,363 | \$438,999 | (2) VS-5-80 120,000 #/hr 250psig Sat. |
| 502 | Conestoga Energy | \$1,762,758 | \$1,765,758 | \$309,008 | \$485,583 | (1) VS-6-92 150,000#/hr 250psig Sat. |
| 503 | Conestoga Energy | | \$3,096,000 | \$541,800 | \$851,400 | (2) VS-6-92 150,000#/hr 250psig Sat. |
| 504 | Yuma Ethanol | \$1,552,320 | \$1,552,328 | \$271,657 | \$426,890 | (1) VS-5-106 120,000#/hr 500psig Sat. |
| 508 | Reo Technical | \$1,897,930 | \$1,897,930 | \$332,138 | \$521,931 | (3) VS-2-45 40,000#/hr 250psig Sat. |
| 515 | Penford Products | \$2,281,710 | \$2,528,525 | \$442,492 | \$695,344 | (2) VS-6-92 150,000#/hr 250psig Sat. |
| 517 | White Energy | \$3,185,400 | \$3,185,400 | \$557,445 | \$875,985 | (2) VS-6-92 150,000#/hr 250psig Sat. |
| 528 | Grest Plains Ethanol | \$1,927,077 | \$1,927,077 | \$337,238 | \$529,946 | (3) VS-4-68 85,000#/hr 250psig Sat. |
| 540 | Cilion Inc. | \$13,637,125 | \$13,637,125 | \$2,386,497 | \$3,750,209 | (11) VS-4-68 79,280#/hr 450psig SH |
| 541 | Hennepin Energy | \$3,694,382 | | \$646,517 | \$1,015,955 | (2) VS-7-116 205,000#/hr 250psig Sat. |
| 542 | Ultimate Ethanol | \$1,596,360 | \$1,596,360 | \$279,363 | \$438,999 | (2) VS-5-80 120,000 #/hr 250psig Sat. |
| 558 | Plainview Bio Energy | \$3,065,400 | \$3,065,400 | \$536,445 | \$842,985 | (2) VS-6-92 150,000#/hr 250psig Sat. |
| 559 | Kansas Ethanol | \$1,665,160 | \$1,665,160 | \$291,403 | \$457,919 | (1) VS-6-92 150,000#/hr 250psig Sat. |
| 562 | Northeast Bio | \$1,983,045 | \$1,983,045 | \$347,033 | \$545,337 | (2) VS-5-80 120,000 #/hr 250psig Sat. |
| 576 | Temple University | \$2,049,079 | \$2,035,055 | \$356,135 | \$559,640 | (3) VS-4-68 75,000#/hr 250psig Sat. |
| | | | | | | |
| | | | | | | |
| Total | | | | \$8,742,172 | \$13,737,698 | |

INDECK KEYSTONE ENERGY LLC vs. VICTORY ENERGY OPERATIONS LLC

Voyager Series Profit Review

We have summarized in the attached table VEO Proposal and the Customer's Purchase Order selling prices. We have also included the expected range of profit that should be realized.

A 17.5 % profit margin was used for the minimum expected profit. This was the profit realized on the two profitable contracts that have been completed and shipped.

A 27.5% profit margin was used as the Maximum expected profit. This was obtained from the average profit realized from the Keystone Boilers that were built during the term of the License Agreement between IKE and VEO.

Based on these values, the expected profit on these nineteen contracts should be somewhere between \$8,742,172 and \$13,737,698. It would be expected that the profits on these contracts should increase as VEO gains experience in manufacturing the Voyager Series package boiler.